



More than
\$600,000,000

to Idaho Public Schools and the Permanent Building Fund.

Thank you for 25 memorable years!



The Idaho Lottery has come a long way since its first \$1 scratch ticket twenty-five years ago. On our very first day of sales on July 19, 1989, the Idaho Lottery sold \$840,000 worth of \$1 tickets. This year we launched our first \$25 Scratch Game, 25th Anniversary. And much like the success of our very first game, we sold \$1.25 million in products the first full day the 25th Anniversary game was on sale. As we highlight our successes and celebrate our accomplishments, over the past two-and-a-half decades the Idaho Lottery has offered 1062 Scratch Games™, 16 Draw Games™, and 200 PullTabs games. We've sold \$2.7 billion in products along the way and created 46 new millionaires. Most importantly, we've returned \$649.5 million to our beneficiaries and good causes, public education, the bond levy equalization fund, and the permanent building fund of Idaho. Lottery dollars have funded thousands of building projects for public education and State facilities while creating \$160 million in economic opportunities for Idaho's retail businesses. Congratulations, Idaho. Our success is your success.





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Lottery mission

The mission of the Idaho Lottery is to responsibly provide entertaining games with a high degree of integrity to maximize the dividend for public schools and the permanent building fund.

Lottery vision

The vision of the Idaho Lottery is to become the highest performing jurisdiction in North America.

Operations and overview

The Idaho Lottery is self-funding and self-governing, comprised of a five-member appointed Lottery Commission and the Idaho Lottery staff. Idaho Lottery Director Jeffrey R. Anderson serves at the pleasure of the Governor. As the Director, he is responsible for overseeing day-to-day lottery operations including security, marketing, sales, media relations, warehousing and inventory control, information technology, and fiscal management. Currently, the Idaho Lottery employs 45 staff members.



C.L. "Butch" Otter

Governor of Idaho

Dear Friends,

Join me in celebrating 25 years of success for your Idaho Lottery. When our Lottery was created in 1988, I had the pleasure of serving Idaho as Lieutenant Governor. At the time, there was considerable discussion about the benefits a Lottery would bring to the Gem State. After an affirmative vote of the people, the Lottery was created and sold its first ticket on the steps of the Capitol on July 19, 1989.

In the late 1980s, we originally believed that a Lottery could add as much as \$20 million a year to the State's revenues for education and our permanent buildings. This past summer, I had the opportunity to accept the single largest check in Idaho Lottery history – a check for \$49 million, nearly two-and-a-half times the amount we thought a Lottery could provide in our State. This achievement has come from the hard work of the Lottery's employees, the continued commitment of Idaho businesses who sell Lottery products, and the support of players who voluntarily participate.

In the two-and-a-half decades since the Lottery began, we've watched the organization grow into a model followed by other lotteries, seen it recognized nationally for its leadership, creativity, responsibility, and seen its continued commitment to the people of Idaho to always maintain the highest levels of security and integrity. Over the past 25 years, the Lottery has never wavered from its obligation to provide fairness and benefits to Idaho's citizens.

After 25 years, the Idaho Lottery has proven its value to the citizens of Idaho with nearly \$650 million in dividends returned to the Department of Education and the Department of Administration's Permanent Building Fund Account. Idaho businesses have earned over \$160 million in commissions from the sale of products, and players have claimed nearly \$1.7 billion in prizes. All of this adds up to one conclusion: the Lottery is a winner for Idaho!

As Always - Idaho, "Esto Perpetua"

C.L. "Butch" Otter
Governor of Idaho



The current Idaho Lottery Management Team members are
(clockwise from back middle):
Jeff Anderson, Director
Amber French, Deputy Director of Security and Enforcement
Shannon Newhouse, Deputy Director of Sales
Sherie Moody-St. Clair, Deputy Director of Marketing
Becky Schroeder, Chief Operating Officer



Jeffrey R. Anderson

Idaho Lottery Director

In the mid-1980's, a group of individuals had a vision to improve Idaho's public education system and increase funding, without raising taxes. Neighboring states Oregon, Montana, and Washington had already established their own Lotteries and Idahoans were driving across state lines to play. After years of hard work, signature petition drives, and two citizen initiatives, the Idaho Lottery was created and began operations in July 1989. It was believed at that time the Lottery could generate between \$8 million and \$20 million a year.

Twenty-five years later, the Idaho Lottery today owes many thanks to the individuals who spent countless hours working for its creation. In July 2014, the Idaho Lottery returned its largest dividend to the people of Idaho for \$49 million, the eleventh consecutive year with a record dividend. In total, \$649.5 million has been returned to Idaho's citizens for our good causes, public education, the State of Idaho's Permanent Building Fund, and the Department of Education's Bond Levy Equalization Fund.

This year, we celebrated our silver anniversary with a record \$208.9 million in total sales, a responsible increase for the twelfth time in thirteen years. This year, both public education and the permanent building fund each received over \$1,000,000 more in dividends than our entire first dividend from 1990. Most importantly, your Lottery's reputation for security, integrity, and responsible play remains unblemished.

We recognize that our achievements over the past two-and-a-half decades would not be possible without the continued support of our players, our outstanding statewide network of 1,200 private sector retail partners, and our vendors who manage our equipment, print our tickets, and assist with our messaging.

As the day approaches when we reach one billion dollars in returned dividends for our good causes, players in Idaho know that someone somewhere is always benefitting from participating in your Lottery. Every play pays to the future of Idaho's education and prosperity among her citizens.

For our twenty-five years of success, and the success yet to come, thank you Idaho!



Jeffrey R. Anderson
Director, Idaho Lottery



Idaho Lottery Commissioners:
(Clockwise From back middle)
Chairman, Mel Fisher; David Keyes;
Craig Corbett, Susan Kerrick,
Gary Michael



Mel Fisher

Chairman of the Idaho Lottery Commission



Twenty-five years ago Idaho embraced its pioneering heritage and ventured into uncharted territory by launching a State run Lottery. The goal was direct and purposeful, to improve the quality of public education and the State's permanent facilities, like college campuses and State Parks. Over the years, the Idaho Lottery has more than proven its value as a respected partner to public education and the citizens of Idaho.

I've had the opportunity to be a part of this incredible organization for the past eleven years. Each year of my tenure on the Idaho State Lottery Commission, we've returned a record dividend to the people of Idaho. This year, on the occasion of the Lottery's 25th anniversary, it was my pleasure to present Governor C. L. "Butch" Otter with my first dividend check as Chairman for a record \$49 million during a ceremony on July 16, 2014 in Boise.

In the last five years, the Idaho Lottery has responsibly grown their sales by fifty percent. During the last ten years, the annual dividend provided to the people of Idaho has doubled. With this year's dividend, and over 25 years the Department of Education and Bond Levy Equalization Fund have received a total of \$343.9 million. The State of Idaho's Permanent Building Fund has received \$305.6 million. To achieve these historic numbers, over the life of the Idaho Lottery, we have raised an average of \$71,130 each day, every day for the past twenty five years.

On behalf of the Idaho Lottery Commission, it is my pleasure to congratulate Director Jeff Anderson and Team Lottery on their outstanding accomplishments for twenty-five great years and we look forward to even better endeavors and success for the next twenty-five.

Sincerely,

Melville W. Fisher II

Chairman, Idaho Lottery Commission

Where The Money Goes

The true benefit of a Lottery is measured only in the meaningful contributions they provide for their good causes and beneficiaries. During their 25th anniversary year, the Idaho Lottery received nationwide recognition from leading lottery industry associations, Public Gaming Research Institute and the North American Association of State and Provincial Lotteries for achieving the highest percentage increase in net funding for Public Education and the Permanent Building Fund over the previous year, the most of any of the 45 lottery jurisdictions operating in the United States.

The foundation for tomorrow's success begins in the academic centers of today. The Idaho Lottery is proud to serve a role in providing for facilities that foster imagination, cultivate creativity, and lead to advancements in arts, sciences, and mathematics. Since beginning operations in 1989, the Idaho Lottery has returned \$649.5 million back to the people of Idaho for the benefit of public education and the State of Idaho's Permanent Building Fund. At the conclusion of Fiscal Year 2014, the individual contribution to the State was an eleventh consecutive record dividend totaling \$49 million.



Dividends, the net proceeds from all Idaho Lottery operations, are distributed by statute to three different funds: the Department of Education's Public School Building Fund, the Department of Education's Bond Levy Equalization Fund, and the State of Idaho's Permanent Building Fund.

At the conclusion of the Idaho Lottery's 25th year of operations, each of these three accounts received more in dividends than in any previous year. As prescribed in statute, the two building fund accounts each received \$18,375,000 while the Bond Levy Equalization Fund received \$12,250,000. The Department of Education uses a formula of total enrollment divided by average daily attendance to determine annual disbursements to the districts.



Idaho Lottery dividends are used by the State's Permanent Building Fund Account for maintenance, restoration, renovation, and development projects on college campuses and State facilities. One such project was the College of Southern Idaho Health Science and Human Services building (pictured on left). The College of Southern Idaho Health Sciences and Human Services Building is LEED Certified for its eco-friendly design by the US Green Building Council.

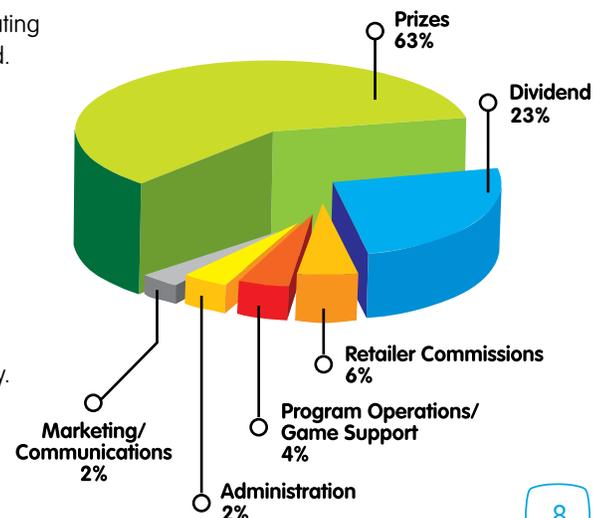
Every play pays in Idaho. When you play the Lottery, someone is always winning and your community always benefits. The neighborhood convenience stores, grocery stores, and all of Idaho's 1,188 Lottery retailers earn commissions for each ticket you buy and the winners you cash at their stores. The schools near your home benefit annually with building improvements as winning experiences eventually find their way back into your community. Every day, Idaho benefits when players participate in the Lottery.

In Fiscal Year 2014, players claimed a record \$133.2 million in prizes, about 63% of all revenues. That averages \$365,019 per day, every day, for the entire year. After prizes, the second largest amount of revenue is returned to the people of Idaho through the annual dividend.

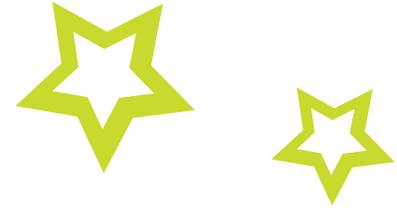
Across Idaho in 166 cities and town, Idaho's dedicated statewide network of retailers earned a record \$12.1 million in commissions during Fiscal Year 2014. That's nearly 6% of sales.

Each year, the Idaho Lottery rigorously manages its financial operating expenditures to improve the bottom line and increase the dividend. Administrative costs represent only about 2% of the total cost to operate the Idaho Lottery. Our vendor partners, who provide our operational systems, terminals, vending machines, and print our Scratch Games™, collectively earn about 4%. The smallest portion of revenue is used for marketing and communications to support products and sales.

Tomorrow's leaders come from today's classrooms. Idaho's true pioneering spirit was founded in its historical innovations. And proving its innovative value for 25 years has been the Idaho Lottery.



Jim Bruce SCRATCH FOR SCHOOLS



This was the 13th year the Idaho Lottery has hosted statewide Scratch for Schools events. In total, 429 schools participated in one of nine events held in eight cities across the Gem State in October 2013. Collectively, they took home over \$97,000 in winnings for their classroom needs, items like computer technology and educational software improvements, library books, or arts programs. More than 156,000 "Pop Quiz" scratch tickets were used during the competition. In addition, schools at each venue were given a pop quiz prior to the start of each event. Winning "Pop Quiz" schools received an additional 50 tickets.

The single best scratching performance by any school was Notus Elementary. Their team did what no team has done since 2006 – successfully scratch an entire pack of 300 tickets in a single, five minute round. And Webster Elementary in Lewiston won their venue for the third consecutive year in a row.

Scratch for Schools was created to further help the Idaho Lottery's mission to benefit each and every Idaho public school who participates. Every participating school received an entire pack of scratch tickets and five minutes to scratch as many tickets as they could. Top schools advanced to the finals where teams received another pack of tickets and another five minutes to scratch. The top scratching schools received a third pack, or 900 tickets, for their efforts. Every school kept all the prize money they found in their ticket packs.

Since the first year, Scratch for Schools has returned over \$762,000 to public schools. Here are the overall results from each venue for 2013:

Date:	Event Location:	Number of Schools:	Dollars to Schools:
October 09, 2013	Pocatello, ISU Student Union	45	\$10,409
October 10, 2013	Idaho Falls, ISU Extension	62	\$14,153
October 16, 2013	Twin Falls, CSI Gymnasium	61	\$13,561
October 17, 2013	Caldwell, College of Idaho	38	\$8,663
October 17, 2013	Caldwell, College of Idaho	25	\$5,701
October 21, 2013	Boise, Century Link Arena	93	\$21,368
October 22, 2013	Lewiston, LSCS Activity Center	44	\$9,808
October 23, 2013	Sandpoint, Best Western	18	\$3,975
October 24, 2013	Coeur d'Alene, Greyhound Park	43	\$9,415
Total attendance and prizes claimed from events:		429	\$97,053



Charitable Gaming in Idaho

Charitable gaming, community bingo games and non-profit raffles, were a primary discussion point when Idaho's citizens voted to approve the creation of the Idaho Lottery in 1988. In 1992, the Lottery received oversight responsibility for charitable bingo and raffle games in Idaho. In the past year, more than 229 charitable and non-profit organizations obtained a charitable gaming license from the Idaho Lottery.

The Idaho Lottery is charged with protecting the public from fraudulently conducted operations and to assure that charitable groups and institutions realize the profits from these games. When a nonprofit organization or a charity wishes to conduct a bingo game or a raffle in Idaho, they are required by law to obtain a license from the State through the Idaho Lottery. Licenses for bingo and raffle operations are necessary when the annual gross revenue (bingo) or prize value (raffle) exceeds statutory benchmarks.

The number of organizations conducting bingo is on the rise and it is a great way for a nonprofit to raise money. State law directs that a minimum of 20% of an organization's gross bingo revenue must be used for charity. In the past year there were 37 organizations conducting bingo operations with gross revenues totaling over \$4 million and just over \$1 million returned to charities.

Raffles are another great source of income and 208 organizations held a raffle license last year. St. Jude alone raised \$817,700 for their organization with one raffle. State law directs that 80% of an organization's net raffle proceeds must be used for charitable purposes and allows for up to 12 raffles per year, per license. In the past year net proceeds were just over \$3.5 million of which 94% was donated to charity totaling just over \$3.3 million.

The funds raised by licensed organizations conducting bingo and raffles benefit people and communities throughout Idaho in numerous and varied ways including conservation research on the Island Park Dam; funding a food bank in Payette; offering self-esteem courses for young women in the Treasure Valley; and providing leadership skills in agribusiness statewide.

For more information on charitable bingo and raffles in Idaho, visit www.idaholottery.com/charitablegaming.

Scratch Games™

The very first lottery ticket sold in Idaho was a \$1 scratch game called Idaho Match 3. It was sold on the steps of the Capitol July 19, 1989 to J.R. Simplot. Since that time, Idaho has gained a nationwide reputation for being a Scratch-favorite state. Nearly 60 percent of all Lottery products sold in Idaho every year are Scratch tickets, including the popular game families of Bingo, Slingo, and Cashword. Idaho has offered more Slingo Scratch Games than any other Lottery jurisdiction. Hard work, careful product management, creativity in game naming, and in-house designed art work is only part of each year's success. Scratch Games in FY2014 enjoyed their highest ever popularity in Idaho, with 55 games launched during the year that sold over \$123.3 million. And each year, there are standouts:

SWEET BBQ BUCKS

The Idaho Lottery put the sizzle into summer in 2013 with their comprehensive, statewide multi-media public relations campaign to support their \$5 scratch ticket, Sweet BBQ Bucks. This dynamic campaign coordinated 27 radio remotes and 31 different retail locations who hosted in-store "Grill-a-brations" throughout the summer. This was all strengthened and promoted by a strong social media component including Facebook, Twitter, Pinterest, and a Sweet BBQ Bucks micro-site. This required the input and participation of the local retailers and utilized their social media and promotional teams as well. The Idaho Lottery also partnered with Idaho's own Double R Ranch to offer second chance gift packs of meat.

In addition to the top prize of \$50,000, this game featured more ways to win than you could shake a skewer at. All non-winning tickets were eligible for entry at idaholottery.com for a chance to win one of six \$100 gift packs in beef from Idaho's own Double R Ranch! These prizes were awarded weekly for six weeks in June and July. One lucky player won the grand second prize of a \$500 gift pack of meat from Double R Ranch.

TAP SCRATCH GAMES

The Idaho Lottery introduced a new product line of paper-less scratch games, TAP Scratch Games, during Fiscal Year 2014. These games are offered only in select and limited age-controlled environments throughout the Gem State. During the year, the Lottery offered 14 games, with Cheers® being the most successful. In total, TAP Scratch Games sold over \$516,000 in products.



Sweet BBQ Bucks and its public relations campaign earned a Silver Rockie Award from the Idaho Advertising Federation.



BE MY HUCKLEBERRY

A perfect fit, one for the other. A unique match between two kindred spirits, one soul searching for the other, two halves of a whole, the yin for the yang, destiny, fate, true love, and the Be My Huckleberry Scratch Game for Valentine's Day. It was a natural match for the ages when the \$2 Be My Huckleberry Scratch Game™ went on sale shortly after New Year's 2014. The game celebrated Idaho's iconic state fruit symbol, the wild mountain huckleberry, and combined it with a \$10,000 top prize. This was the Lottery's Valentine's Day game, a gift with heartfelt meaning. Nothing quite says love like a huckleberry worth \$10,000!

FROGGER

One of the most beloved and popular video games of its era, Frogger debuted worldwide in 1981. It arrived during the golden age of video arcade games, a time that combined a magical blend of technology, music and entertainment and thrilled a new generation. A generation later, Frogger is still being played on computers, smartphones and tablets.



25TH ANNIVERSARY

Let the party begin! The Idaho Lottery celebrated its silver anniversary with a statewide, big party with big prizes! To commemorate the occasion, the Idaho Lottery offered their first ever \$25 Scratch Game™ with a top prize of \$250,000 and loaded with \$250 and \$2,500 winners. The silvery-shiny party-style ticket came complete with balloons, party hats and presents. On the reverse side of the ticket, players could enter for one of five \$2,500 second chance prizes or one second chance grand prize of \$25,000 at the game's end. To enter, players used an 8-digit alphanumeric code (letters and numbers) on the front of their ticket to enter through the VIP Club website or to play an app-based game for additional entries into the drawing.

The 25th Anniversary Scratch Game was an instant success when it entered the market place. During March, 25th Anniversary outsold Powerball by over \$1 million.

CASHWORD AND APPS

The Cashword Family of Scratch Games™ received an extra level of extended play options for players in FY2014. Launched in mid-January 2014, the \$3 Bonus Play Cashword and \$5 Bonus Play Cashword games came with a second chance prize game app that could win lucky players 100 free cashword tickets – for both games in addition to the top prizes of \$30,000 and \$50,000 respectively.

Once players purchased a Bonus Play Cashword scratch ticket, they downloaded the game app. The game app features additional “play for free or play for entries” capabilities for players wanting to play additional games of Cashword. To play for entries, players used a “2nd chance app code” from their game ticket to play for entries. Both games were extremely popular with dedicated followers with over 17,000 downloads of the Bonus Play Cashword app.

Draw Games™

Big winners, big jackpots, and big benefits! This year's Idaho Lottery Draw Game lineup saw five huge jackpot runs, created seven millionaires, five jackpot winners, and sold out the seventh edition of the Idaho \$1,000,000 Raffle. Overall, Draw Games accounted for 29.7% of the Idaho Lottery's overall sales for FY2014 and provided \$25 million dividends.



After two game record runs during FY2013 with jackpots close to \$600 million each, Powerball climbed to the \$400 million plateau three times during FY2014 with the highest jackpot occurring on August 7, 2013 at \$448.4 million. Subsequently, Powerball, Idaho's most popular game saw sales decline from the previous year by 19.4% despite posting the largest average jackpot won in the game's history for any given year at \$215.95 million. Nationwide there were 11 winning jackpots during the year. Luck continued to follow Powerball winners through Idaho as the game created six new millionaires in the Gem State.



During October 2013, Mega Millions successfully transitioned to a new play-format with game changes and updates that made winning a prize easier, increasing the second-level prize to a guaranteed \$1,000,000 and increased the starting jackpot level. The result saw Mega Millions enjoy its best jackpot year since debuting in Idaho in 2010 with an announced daily average jackpot of \$98.5 million. The game also realized a dozen jackpot winners nationwide with an average winning jackpot of \$143 million, also the highest for the game since being introduced in Idaho. Mega Millions also recorded the second largest jackpot in world history, with a \$648 million run that ended on December 17, 2013. In March, the game also experienced a jackpot run of \$414 million. Overall sales for Mega Millions were \$13.38 million, the second highest in the game's history and a nearly 45% increase over the previous year.



For the third consecutive year, Weekly Grand posted record sales for this \$2, Idaho-only game that delivers \$1,000 a week after withholding taxes, every week for a year to players who win the jackpot. Throughout the course of the year, the game had four jackpot winners, including Idaho boxing legend Kenny Keene, and a dozen players claimed \$100 a week every week for a year through the game's built-in second chance draw. Overall sales on the game were up nearly three percent, coming in at \$2.8 million.



The game improvements made to Hot Lotto during the spring of 2013 made a difference in overall sales for the game in FY2014. Sales for Hot Lotto, a game with a devout following among jackpot players, were up by 5.7% over the previous year. During the year, ten players were one number away from winning the jackpot as they matched four numbers and the hot ball, winning \$9,000.



Among its players, Wild Card has a dedicated following. And consistent with its jackpots during the year, Wild Card sales were relatively steady with a minor overall drop of 6.7%. For the fourth consecutive year, an Idaho player won the Wild Card jackpot. The lone \$205,000 win came in December 2013 from American Falls.



Idaho Pick 3 might be called 'Old Reliable' as it continues to provide consistent sales from its dedicated base group of players. At \$1.9 million in annual sales, the classic twice-daily game realized a 1.2% increase over the previous year. This is the fourth consecutive year with sales increases for the game.



The FY2014 edition of the annual Idaho \$1,000,000 Raffle made its celebrated launch on Halloween at 4 a.m. MT to celebrate the orange themed color of the game. Sixty-two days later, the game sold out for the sixth time on New Year's Eve. On January 2, 2014, adorned by orange glowing water fountains and 400 spectators at the Village in Meridian, the Idaho Lottery made a public, live television announcement of the winning numbers. This year's game offered the most prizes for the Idaho \$1,000,000 Raffle at 4,450.

This year's winners, the Massoth Family, bought their winning ticket on the thirteenth day of sales and watched the live announcement of the winning numbers on television. The winners gave back to the community by donating \$10,000 of their winnings in food and supplies to the Idaho Food Bank.

PullTabs and TouchTabs

Combined, PullTabs and TouchTabs products sold \$23.1 million in FY 2014. The Idaho Lottery offers self-service terminals in 147 age-controlled, retail environments in limited locations in Idaho for TouchTab products. TouchTabs completed their second full year of operations in FY 2014 and enjoyed a sales increase of 9.7%.

Like the classic, break-open versions, TouchTabs play exactly like PullTabs only they are paperless. Traditional PullTabs are still available for sale in all locations where TouchTabs are offered. The primary difference between the traditional, break-open style of PullTabs and TouchTabs is how they are played. The TouchTabs are dispensed via a touchscreen to reveal winning and non-winning combinations.

In addition to a reduction in cost to deliver the TouchTab product to the retailer, the paperless version of PullTabs also provides additional security of the games.



Idaho Lottery Retailers

The Idaho Lottery has generated over \$2.7 billion in sales by retailers in our twenty-five year history. Retailers along the way have earned \$160.1 million in commissions from those sales. As an enterprise agency for the State of Idaho, we are charged with creating economic opportunity in every corner of Idaho. Today, we have a network of 1,188 retail locations in 165 communities in the Gem State that offer our products. We thank everyone who has had a hand in contributing to our success. Our success means that Idaho's businesses can prosper and our education system can flourish.

About 15% of our retailers, 177 establishments, have been with the Idaho Lottery since our first ticket was sold on July 19, 1989. During Fiscal Year 2014, there were 1,021 retailers offering traditional lottery products. An additional 98 offered PullTab products only, locations with age controlled environments that are able to offer the traditional PullTab paper and TouchTab products. About 30 of these establishments also offered TAP Scratch Games. Idaho Lottery products are available in 165 towns across the Gem State.

The business landscape for lottery products in Fiscal Year 2014 shows approximately 52% of Idaho Lottery retailers were convenience store-type operations and accounted for 73.3% of all sales. Another 14.2% were grocery store accounts that realized 18% of total sales. The remaining retail locations were a combination of variety stores, smoke shops, bowling centers, and restaurants and lounges.

Vendor Partners of Record

The success of the Idaho Lottery is also dependent on the continued good success of its vendor partners. The Idaho Lottery appreciates the creativity, strategic ability, and professional execution of all of these companies' efforts during fiscal year 2014.

- INTRALOT, USA - Terminal and gaming systems operators, developers
Headquarters: Marietta, Georgia, United States
- GTECH Printing, Inc. - Scratch Games™ developer/printer
Headquarters: Lakeland, Florida, United States
- Pollard Banknote, Inc. – Scratch Games™ developer/printer
Headquarters: Ypsilanti, Michigan, United States
- International Gamco, Inc. – PullTabs/TouchTabs provider
Headquarters: Omaha, Nebraska, United States
- Drake Cooper - creative and strategic marketing services provider
Headquarters: Boise, Idaho, United States
- CLM - media marketing services provider
Headquarters: Boise, Idaho, United States

Independent Auditor's Report

To the Idaho Lottery Commission
Idaho Lottery
Boise, Idaho



CPAs & BUSINESS ADVISORS

Report on the Financial Statements

We have audited the accompanying financial statements of Idaho Lottery (the Lottery), an agency of the State of Idaho, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Lottery's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

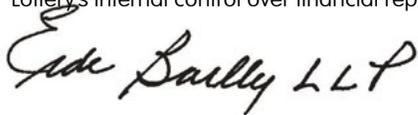
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide an

assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2014 on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That reports is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.



Boise, Idaho
October 24, 2014

Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) allows Idaho Lottery (Lottery) management to provide users of the financial statements with an analysis of the agency's financial activities based upon currently known facts, decisions and conditions. Please read it in conjunction with the Idaho Lottery Financial Statements that follow this section.

A key focus of the MD&A is the discussion of the current-year results in comparison with the prior year. While the accompanying financial statements present the financial position of the Idaho Lottery as of June 30, 2014 and 2013, and financial activity for the years then ended, the MD&A also includes this information for the year ended June 30, 2012, in order to allow for a broader comparison.

OVERVIEW OF THE ACCOMPANYING FINANCIAL STATEMENTS

These required statements offer short and long-term financial information about the Idaho Lottery.

The Statements of Net Assets provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the close of fiscal year 2014 and 2013.

The Statements of Revenues, Expenses and Changes in Fund Net Assets, measures the success of the Lottery's operations for fiscal year 2014 and 2013 and the resulting increase or decrease in net position.

The Statements of Cash Flows. The primary purpose of this statement is to provide information about the Lottery's cash receipts and cash payments during the fiscal year 2014 and 2013. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financial activities and provides answers to such questions as where cash originated from and where it went during the fiscal years.

The Idaho Lottery is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and depreciated over their useful lives. The notes to the financial statement contain, among other information, a description of the Idaho Lottery's significant accounting policies. The accompanying notes are an integral part of the financial statements.

The reader should refer to the financial statements and the accompanying notes for information on the individual components of the Statements of Net Position. The following analysis is intended to highlight selective changes between 2014 and 2013 and 2013 and 2012.

Management's Discussion and Analysis

	<u>2014</u>	<u>2013</u>	Change <u>2014 to 2013</u>	<u>2012</u>	Change <u>2013 to 2012</u>
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 47,738,879	\$ 48,416,156	\$ (677,277)	\$ 40,067,309	\$ 8,348,847
Receivables	1,858,660	1,549,478	309,182	1,425,176	124,302
Due From MUSL	-	-	-	3,235,898	(3,235,898)
Other	107,672	119,153	(11,481)	174,850	(55,697)
Total current assets	<u>49,705,211</u>	<u>50,084,787</u>	<u>(379,576)</u>	<u>44,903,233</u>	<u>5,181,554</u>
Reserves with MUSL	2,785,597	2,730,558	55,039	2,774,340	(43,782)
Plant, Property and Equipment, net	141,725	214,243	(72,518)	295,527	(81,284)
	<u>\$ 52,632,533</u>	<u>\$ 53,029,588</u>	<u>\$ (397,055)</u>	<u>\$ 47,973,100</u>	<u>\$ 5,056,488</u>
LIABILITIES AND NET POSITION					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 1,807,399	\$ 1,431,284	\$ 376,115	\$ 1,373,925	\$ 57,359
Dividend payable	49,000,000	48,200,000	800,000	41,500,000	6,700,000
Due to MUSL	317,817	331,152	(13,335)	121,941	209,211
Prizes payable	2,497,075	2,515,164	(18,089)	3,756,923	(1,241,759)
Current portion of notes payable	38,237	40,146	(1,909)	37,854	2,292
Total current liabilities	<u>53,660,528</u>	<u>52,517,746</u>	<u>1,142,782</u>	<u>46,790,643</u>	<u>5,727,103</u>
LONG-TERM NOTES PAYABLE	28,601	66,838	(38,237)	106,987	(40,149)
TOTAL LIABILITIES	<u>53,689,129</u>	<u>52,584,584</u>	<u>1,104,545</u>	<u>46,897,630</u>	<u>5,686,954</u>
NET POSITION					
Invested in capital assets	74,887	107,259	(32,372)	150,686	(43,427)
Unrestricted	(1,131,483)	337,745	(1,469,228)	924,784	(587,039)
Total net position	<u>(1,056,596)</u>	<u>445,004</u>	<u>(1,501,600)</u>	<u>1,075,470</u>	<u>(630,466)</u>
	<u>\$ 52,632,533</u>	<u>\$ 53,029,588</u>	<u>\$ (397,055)</u>	<u>\$ 47,973,100</u>	<u>\$ 5,056,488</u>

Management's Discussion and Analysis

Receivables

The Lottery's billing week is from Sunday through Saturday. The amount due from retailer transactions (i.e., sales, less commissions and prizes paid by the retailer) are transferred from the retailer's bank account to the Lottery's account the following Thursday. Similarly, any amounts due to the retailer from the Lottery are transferred to the retailer's account on Thursday. The Lottery refers to this transfer as a "sweep", and this mandatory process between the Lottery and its retailer customers simplifies collections.

The Receivables balances for 2014, 2013 and 2012 consist of the following:

	2014	2013	2012
Week ended June 30 sales	\$ 1,852,777	\$ 1,534,120	\$ 1,406,269
Accounts to Attorney General for collection	<u>5,883</u>	<u>15,358</u>	<u>18,907</u>
Total	<u>\$ 1,858,660</u>	<u>\$ 1,549,478</u>	<u>\$ 1,425,176</u>

Ticket Inventory (prepaid subcategory)

Shared Scratch ticket printing contracts were awarded in March 2013 to primary vendor, GTECH Printing and secondary printing contract in May 2013 to Pollard Banknote. PullTab tickets are expensed when the tickets are sold to the retailers. Consequently, the Ticket Inventory balances on June 30, 2014, 2013, and 2012, consist of any unamortized production costs of scratch tickets and the cost of unsold PullTab ticket stock.

Plant, Property, and Equipment, net

The balances shown were derived as follows:

	2014	2013	2012
Beginning balance	\$ 214,243	\$ 295,527	\$ 268,277
Add: acquisitions	29,799	40,857	189,131
Deduct: depreciation	<u>(102,317)</u>	<u>(122,141)</u>	<u>(161,881)</u>
Ending balance	<u>\$ 141,725</u>	<u>\$ 214,243</u>	<u>\$ 295,527</u>

LIABILITIES AND NET POSITION

Dividend Payable

The dividends declared by the Idaho Lottery Commission for 2014, 2013 and 2012 were \$49,000,000, \$48,200,000, and \$41,500,000, respectively. The dividend is declared on or before June 30th and paid on July 1 or shortly thereafter.

Prizes Payable

The decrease of \$1,241,759 between 2012 and 2013 is primarily due to an outstanding \$1,000,000 Powerball Prize Winner in 2012. The prize was claimed in July 2012. There is no significant change between 2013 and 2014.

Total Net Assets

Net position represents the difference between the Lottery's total assets and its total liabilities. Net position is allocated between the portion which represents the investment in capital assets (i.e., plant equipment and other fixed assets) and the total.

REVENUES EXPENSES AND CHANGES IN NET FIXED ASSETS

Operating Revenues

Comparative operating revenues for the four major product sales classifications; Draw tickets, Scratch tickets, Raffle and PullTab/TouchTab tickets and other for revenue are as follows:

Management's Discussion and Analysis

	2014	2013	Change 2013 to 2014	2012	Change 2012 to 2013
Draw Game sales					
Powerball	\$ 36,526,313	\$ 45,350,144	\$ (8,823,831)	\$ 34,757,979	\$ 10,592,165
Wild Card	2,030,710	2,177,861	(147,151)	2,105,335	72,526
Pick 3	1,924,401	1,888,639	35,762	1,774,518	114,121
Hot Lotto Sizzler	3,224,267	3,050,816	173,451	2,700,652	350,164
Double Play Daily	-	-	-	148,760	(148,760)
Mega Millions	13,379,076	9,253,222	4,125,854	14,064,660	(4,811,438)
Weekly Grand	2,800,996	2,723,962	77,034	2,713,342	10,620
Raffle	2,500,000	2,500,000	-	2,152,270	347,730
Total Draw Game Sales	<u>62,385,763</u>	<u>66,944,644</u>	<u>(4,558,881)</u>	<u>60,417,516</u>	<u>6,527,128</u>
Scratch ticket sales	123,349,080	108,683,305	14,665,775	99,834,885	8,848,420
PullTab ticket sales	1,921,901	2,479,690	(557,789)	2,733,759	(254,069)
TouchTab ticket sales	<u>21,235,850</u>	<u>19,341,600</u>	<u>1,894,250</u>	<u>12,841,600</u>	<u>6,500,000</u>
Total sales	<u>208,892,594</u>	<u>197,449,239</u>	<u>11,443,355</u>	<u>175,827,760</u>	<u>21,621,479</u>
Data Line Charges	692,704	673,500	19,204	675,563	(2,063)
Other revenues	<u>56,140</u>	<u>45,630</u>	<u>10,510</u>	<u>40,150</u>	<u>5,480</u>
Total operating revenues	<u>\$ 209,641,438</u>	<u>\$198,168,369</u>	<u>\$11,473,069</u>	<u>\$176,543,473</u>	<u>\$21,624,896</u>

Draw Game Sales

The Powerball game is sold in forty-three states, Washington, D.C. and the U.S. Virgin Islands. These lotteries contribute a fixed percentage of their Powerball sales revenue to a consolidated Jackpot prize. There are two Powerball drawings a week with a minimum-starting jackpot of \$40 million. Each time the jackpot is not won it rolls into the next draw and thus the jackpot grows until it is won. Current odds of winning the jackpot are 1:175,223,510. Over time, additional lottery jurisdictions have joined the game, thereby increasing the player base. Big game sales are jackpot driven; the higher the announced jackpot, the higher the sales. While this has generally tended to make big game sales trend up, it is important to be aware of the relationship of the jackpot and sales as illustrated in the chart below.

Powerball relationship between announced jackpot and sales:

	Average Announced Jackpot per Draw	Average Sales per Draw	Annual Sales
2014	\$ 117,846,154	\$ 351,215	\$ 36,526,313
2013	121,403,846	436,059	45,350,144
2012	85,857,143	331,028	34,757,979
2011	63,019,231	285,412	29,682,810
2010	83,361,905	352,521	36,662,205
2009	68,605,769	353,725	36,787,378
2008	71,146,154	379,533	39,471,389
2007	69,694,286	365,226	38,348,748
2006	82,345,192	430,385	44,760,077
2005	49,202,885	289,351	30,092,519
2004	62,099,048	339,498	35,647,385
2003	49,337,500	302,959	31,577,648

Management's Discussion and Analysis

Mega Millions:

In 2010, the Idaho Lottery launched sales of Mega Millions with Megaplier. The Mega Millions game is similar to Powerball but holds drawings on Tuesday and Friday, instead of Wednesday and Saturday. Mega Millions was originally launched and sold by states NOT selling Powerball. In 2010 all states came together to agree on a cross selling initiative which allowed all states to sell both of the "big games" across borders. While sales and popularity of the game continue to increase in Idaho (and in other jurisdictions) we are optimistic that players will eventually embrace both games and actively play big jackpot games four times a week.

Similar to Powerball, Mega Millions is sold in forty five localities: forty three states plus the District of Columbia and the U.S. Virgin Islands, with odds of winning the jackpot, modified after a matrix change in October 2013 to 1:258,890,850. As with Powerball, it is important to be aware of the relationship of the jackpot and sales as illustrated in the chart below.

	Average Announced Jackpot per Draw	Average Sales per Draw	Annual Sales
2014	\$ 98,259,615	\$ 128,645	\$ 13,379,076
2013	42,865,385	88,973	9,253,222
2012	68,780,952	133,949	14,064,660
2011	64,615,385	86,182	8,962,895
2010	62,720,930	61,002	2,623,081

Neither Wild Card, nor Pick 3 is as sensitive to jackpots as Powerball and Mega Millions. Both games have a consistent player base, although players will shift their buying habits from both games to Powerball and Mega Millions when jackpots are unusually large. The Lottery continues to offer a fall Raffle game to the mix, giving the six current draw games a sales lift in the second quarter. The Draw games, with higher profit margins than Scratch, increase profits in the Draw category.

Scratch™ Ticket Sales

Sales are up in all categories of Scratch games. The ongoing goal, when managing the Scratch game portfolio is to introduce fun, easy to play themes in all price points. The lower priced games generally have a lower pay out and are more profitable. The more expensive games generally offer more interesting and longer play features than a simple "match three" format of many one and two-dollar games. As a result, some players feel the higher priced tickets offer more entertainment value.

During FY14, the Lottery launched a terminal based scratch ticket game called TAP Scratch. TAP Scratch Games play just like regular Scratch Games but are paperless. These eco-friendly games are fun, entertaining and currently carry top prizes as high as \$20,000. These games are played on existing MultiPlay Station (MP) vending machines, and are limited to age controlled establishments, primarily bars and taverns.

Scratch ticket sales by price point for the fiscal years 2014, 2013 and 2012 are as follows:

	2014		2013		2012	
One-dollar games	\$7,739,682	6.3%	\$8,435,978	7.8%	\$8,379,786	8.4%
Two-dollar games	\$7,130,438	5.8%	\$8,183,584	7.5%	\$8,261,000	8.3%
Three-dollar games	\$20,448,546	16.6%	\$20,724,678	19.1%	\$21,892,734	21.9%
Five-dollar games	\$37,620,580	30.5%	\$37,914,565	34.9%	\$31,794,995	31.8%
Ten-dollar games	\$19,267,770	15.6%	\$14,544,960	13.4%	\$14,379,970	14.4%
Twenty-dollar games	\$30,625,685	24.8%	\$18,879,540	17.4%	\$15,126,400	15.2%
TAP Scratch games	\$516,379	0.4%	\$0	0.0%	\$0	0.0%
Total sales	<u>\$123,349,080</u>	100.0%	<u>\$108,683,305</u>	100.0%	<u>\$99,834,885</u>	100.0%
Increase over prior year	\$14,665,775		\$8,848,420		\$9,207,770	

Management's Discussion and Analysis

PullTab Ticket Sales

PullTab tickets, which are sold mainly in restaurants and bars, have historically less than 2% of the Lottery's total annual sales. Fighting competition from illegal gaming machines, annual sales reached \$1,921,901 in fiscal year 2014 and we are hopeful that they continue an upward trend. Concentrated efforts between the Lottery and our PullTab vendor, International Gamco are ongoing and while the paper PullTab product continues to hold its own, we continue to see out additional selling locations and increased sales in the coming fiscal year. We continue our focus on new delivery options for our PullTab product this fiscal year, with increased installations of Gamco's paper ticket vending machines (TabBOXX) around the state.

TouchTab PullTab Ticket Sales

Together with our vendor partner International Gamco, the Idaho Lottery launched a pilot project from 11/2010 to 6/2011 to introduce a new TouchTab dispensing device to retailers around Idaho. The TouchTab dispensing device is co-located with our paper ticket vending machines (TabBOXX), and only in age controlled environments (bars and taverns). TouchTab games are nearly identical to paper PullTabs; each game is played just like the paper version; each game has a predetermined number of tickets; odds are finite with winning tickets randomly seeded throughout the number of tickets in the game; and prizes must be claimed by the selling retailer.

Subsequent phases, after the successful pilot, added additional age controlled locations that have passed our criminal and financial background checks. While the Idaho Lottery expects to deliver enhanced dividends from this product going forward, the payout to the player for this product is higher than other offerings, so the resulting profit margin is lower.

At \$21,235,850 in fiscal year 2014, TouchTab sales have garnered a hearty 10.2% of the product mix and continue to trend up.

Interest income on funds held at the State

All idle cash with the State Treasurer is invested in a variety of securities. The Lottery is an involuntary member of this pool. Estimated interest accrued is reflected in the Lottery's financial statements. The interest earned is offset by a transfer to the State of Idaho General Fund.

Interest income earned on the funds held at the state by the Lottery for 2014, 2013 and 2012 were \$94,199, \$79,452 and \$95,166, respectively.

Operating expenses

2014, 2013 and 2012 operating expenses are as follows:

	<u>2014</u>	<u>2013</u>	Change <u>2013 to 2014</u>	<u>2012</u>	Change <u>2012 to 2013</u>
Prizes, net of unclaimed prizes	\$133,232,103	\$122,888,172	\$10,343,931	\$108,862,168	\$14,026,004
Retailer commissions	12,140,237	11,493,474	646,763	10,412,783	1,080,691
Draw Game contractor's fees	4,666,523	4,443,031	223,492	4,019,929	423,102
Scratch tickets	2,251,337	1,978,151	273,186	1,736,331	241,820
PullTab/TouchTab tickets	1,789,346	1,749,776	39,570	1,344,779	404,997
Advertising	3,665,687	3,607,520	58,167	3,727,557	(120,037)
Salaries and benefits	2,678,945	2,702,666	(23,721)	2,277,965	424,701
Depreciation and amortization	102,317	122,141	(19,824)	161,881	(39,740)
Telephone and data line costs	30,695	39,007	(8,312)	45,963	(6,956)
Professional services	186,689	168,075	18,614	123,558	44,517
Office and equipment rental	388,974	479,599	(90,625)	426,746	52,853
Shipping costs	428,363	407,439	20,924	369,549	37,890
Supplies	105,773	81,550	24,223	68,873	12,677
Tribe compact	141,029	139,488	1,541	128,207	11,281
Other costs	<u>331,282</u>	<u>292,537</u>	<u>38,745</u>	<u>345,617</u>	<u>(53,080)</u>
Total operating expenses	<u>\$162,139,300</u>	<u>\$150,592,626</u>	<u>\$ 11,546,674</u>	<u>\$134,051,906</u>	<u>\$ 16,540,720</u>

Management's Discussion and Analysis

Generally, the changes in expenses during the three fiscal years reflect the change in the level of sales as well as a shift in the product sales mix, i.e., the relative percentage that each product group (Draw, Scratch, PullTab, and TouchTab) represents of total sales. Sales levels and mix for each of the years is represented below:

	<u>2014</u>		<u>2013</u>		<u>2012</u>	
Draw Game sales	\$ 62,385,763	29.9%	\$ 66,944,644	33.9%	\$ 60,417,516	34.4%
Scratch Game sales	123,349,080	59.0%	108,683,305	55.0%	99,834,885	56.7%
PullTab sales	1,921,901	0.9%	2,479,690	1.3%	2,733,759	1.6%
TouchTab sales	<u>21,235,850</u>	<u>10.2%</u>	<u>19,341,600</u>	<u>9.8%</u>	<u>12,841,600</u>	<u>7.3%</u>
Total sales	<u>\$ 208,892,594</u>	<u>100.0%</u>	<u>\$ 197,449,239</u>	<u>100.0%</u>	<u>\$ 175,827,760</u>	<u>100.0%</u>
Increase (decrease) from prior year	\$ 11,443,355		\$ 21,621,479		\$ 28,676,152	

Certain cost categories, namely advertising, salaries and benefits, depreciation and amortization, telephone and data line costs, professional services, office and equipment, supplies and other costs are only minimally affected by sales increases or shifts in the sales mix. However, the change in sales level or mix does impact prizes, retailer commissions, Draw game commissions, Scratch and PullTab ticket costs, as well as shipping, detailed in the following information which outlines prize expense percentages.

Prizes, net of unclaimed prizes

Each of the three product types, Draw games, Scratch (including TAP Scratch), and PullTabs (including TouchTabs) have differing average prize expense percentages associated with that product. The average prize percentage for each category depends upon the prize percentage of the individual games within that product type. For example, Powerball has a prize percentage of 50% (i.e. 50% of the sales go to the prize fund for Powerball); Pick 3 also has a 50% prize percentage while Mega Millions has a prize percentage of 51% and WildCard has a prize percentage of 57%. The overall average prize percentage for the suite of Draw game products depends upon the sales mix for the three games. Similarly, most Scratch and PullTab games have different prize percentages, although they average in the range of 67-70%, with higher price point tickets generally offering a higher prize payout percentage. TouchTab games have a prize percentage of between 78-80%.

Two other factors are considered in computing prize expense. The first factor is the prize expense associated with second chance draws. Second chance draws are held in conjunction with Draw or Scratch games, where the drawing entry is normally a non-winning ticket. The second factor is unclaimed prizes. The value of all prizes not claimed within the statutory 180-day claiming period is off-set against and reduces that year's total prize expense.

The product mix and resulting sales can significantly skew the overall prize payout.

Prize expense, net of unclaimed prizes, consisted of the following for the years 2012-2014:

2014	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	62,385,763	48.21%	30,074,178
Scratch ticket sales	123,349,080	70.46%	86,906,210
Raffle sales	2,500,000	52.00%	1,300,000
PullTab ticket sales	1,921,901	70.10%	1,347,289
TouchTab ticket sales	21,235,850	80.46%	17,085,315
Second chance draws			129,735
Unclaimed prizes			<u>(3,610,624)</u>
			<u>\$ 133,232,103</u>

Management's Discussion and Analysis

2013	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	64,444,644	50.89%	\$32,793,206
Scratch ticket sales	108,683,305	69.37%	75,392,168
Raffle sales	2,500,000	52.00%	1,300,000
PullTab ticket sales	2,479,690	69.99%	1,735,458
TouchTab ticket sales	19,341,600	80.04%	15,480,120
Second chance draws			142,323
Unclaimed prizes			<u>(3,955,103)</u>
			<u>\$ 122,888,172</u>

2012	<u>Sales</u>	<u>Prize %</u>	<u>Prizes</u>
Draw ticket sales	\$ 58,265,246	50.47%	\$ 29,405,019
Scratch ticket sales	99,834,885	69.06%	68,944,539
Raffle sales	2,152,270	60.40%	1,300,000
PullTab ticket sales	2,733,759	70.15%	1,917,809
TouchTab ticket sales	12,841,600	79.59%	10,220,204
Second chance draws			104,652
Unclaimed prizes			<u>(3,030,055)</u>
			<u>\$ 108,862,168</u>

Retailer commissions, Scratch™ and PullTab ticket costs

Changes in these cost categories generally reflect and are related to the corresponding change in sales.

Draw Game Contractor Fee

The Lottery contracts with INTRALOT as the draw game vendor. INTRALOT provides the Lottery with critical hardware and software, network communications, and support personnel.

Outlook for the Fiscal Year ended June 30, 2014

The Idaho Lottery celebrated its 25th year of operations in Fiscal Year 2014 with a record setting dividend of \$49 million on the strength of record setting sales. For the first time in Idaho Lottery history, sales eclipsed the \$200 million mark ending the year at \$208.9 million. After a successful game change for Mega Millions in October 2013, the game buoyed overall sales with the second largest jackpot run in world history in December, reaching \$648 million a week prior to Christmas. Powerball also had three \$400 million or higher jackpot runs during the course of the fiscal year.

To further celebrate the 25th anniversary, the Idaho Lottery introduced their first ever \$25 scratch game, 25th Anniversary with a top prize of \$250,000. Overall, Scratch Games™ realized their most successful year, with an increase of \$14.1 million and a 13% overall improvement in sales. This success is attributed to the careful management of the scratch game portfolio that kept popular tickets on the market with the correct price point and facings at all times. The PullTab product line also increased 9.8% in Fiscal Year 2014, although as previously mentioned, the profitability of this product has a lower margin than our other games.

With 2014 as a reasonable base, the Lottery believes that FY2015 sales, in all categories, will trend slightly up. Winner awareness continues to fuel Idaho's claim as a lucky place to play the Lottery. During FY2014, Idaho had a Wild Card jackpot winner and seven \$1 million or higher winners on Powerball and other games. The Idaho \$1,000,000 Raffle sold out and Weekly Grand had three jackpot winners in its third year. Brand awareness for all games remains very high. Per capita, Idaho remains a top four lottery jurisdiction in the United States to win a \$500,000 or higher prize on a multi-state draw game. A move toward introducing and promoting more draw games in the portfolio will be a central theme for FY2015. With these new games, and the continued migration toward higher Scratch Game price points, sales estimates for 2015 look promising.

Contacting the Idaho Lottery

This financial reporting is designed to provide a general overview of the Idaho Lottery's finances and to demonstrate accountability for money earned by the Idaho Lottery. If you have questions about this report or need additional financial information, contact Becky Schroeder, Chief Operating Officer, Idaho Lottery, P.O. Box 6537, Boise, ID 83707-6537, or call (208) 334-2600.

Statements of Net Position

ASSETS

CURRENT ASSETS

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 47,738,879	\$ 48,416,156
Due from MUSL	-	-
Receivables	1,858,660	1,549,478
Other	<u>107,672</u>	<u>119,153</u>
Total current assets	49,705,211	50,084,787

DEPOSITS WITH MUSL

	2,785,597	2,730,558
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PROPERTY AND EQUIPMENT, NET

	<u>141,725</u>	<u>214,243</u>
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	<u>\$ 52,632,533</u>	<u>\$ 53,029,588</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 1,807,399	\$ 1,431,284
Dividend payable	49,000,000	48,200,000
Due to MUSL	317,817	331,152
Prizes payable	2,497,075	2,515,164
Current portion of notes payable	<u>38,237</u>	<u>40,146</u>
Total current liabilities	53,660,528	52,517,746

LONG-TERM NOTES PAYABLE

	<u>28,601</u>	<u>66,838</u>
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TOTAL LIABILITIES

	53,689,129	52,584,584
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NET ASSETS

Invested in capital assets	74,888	107,259
Unrestricted	<u>(1,131,484)</u>	<u>337,745</u>
Total net assets	<u>(1,056,596)</u>	<u>445,004</u>

TOTAL LIABILITIES AND NET ASSETS

	<u>\$ 52,632,533</u>	<u>\$ 53,029,588</u>
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Statements of Revenues, Expenses, and Changes in Net Position

OPERATING REVENUES

	2014	2013
Scratch ticket sales	\$ 123,349,080	\$ 108,683,305
Draw ticket sales	59,885,763	64,444,644
PullTab ticket sales	1,921,901	2,479,690
TouchTab ticket sales	21,235,850	19,341,600
Raffle sales	2,500,000	2,500,000
Data line charges	692,704	673,500
Other	56,140	45,630
Total operating revenues	<u>209,641,438</u>	<u>198,168,369</u>

OPERATING EXPENSES

Prizes, net of unclaimed prizes	\$ 133,232,103	\$ 122,888,172
Retailer commissions	12,140,237	11,493,474
Gaming system services	4,666,523	4,443,031
Scratch tickets	2,251,337	1,978,151
PullTab/TouchTab tickets	1,789,346	1,749,776
Advertising	3,665,687	3,607,520
Salaries and benefits	2,678,945	2,702,666
Depreciation and amortization	102,317	122,141
Telephone and data line costs	30,695	39,007
Professional services	186,689	168,075
Office and equipment	388,974	479,599
Shipping costs	428,363	407,439
Supplies	105,773	81,550
Tribe compact	141,029	139,488
Other	331,282	292,537
Total operating expenses	<u>162,139,300</u>	<u>150,592,626</u>

OPERATING INCOME

	<u>47,502,138</u>	<u>47,575,743</u>
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NONOPERATING REVENUES

Interest income	1,450	1,272
Interest income on funds held at the State	94,199	79,452
Interest expense	(5,188)	(7,481)
Total non operating revenue	<u>90,461</u>	<u>73,243</u>

INCOME BEFORE TRANSFERS

	<u>47,592,599</u>	<u>47,648,986</u>
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TRANSFERS

State Permanent Building Fund	(18,375,000)	(18,075,000)
State Public Schools Building Fund	(18,375,000)	(18,075,000)
State Bond Equalization Fund	(12,250,000)	(12,050,000)
State general fund-interest earnings	(94,199)	(79,452)
Total transfers	<u>(49,094,199)</u>	<u>(48,279,452)</u>

CHANGE IN NET ASSETS

TOTAL NET ASSETS, BEGINNING OF YEAR

TOTAL NET ASSETS, ENDING OF YEAR

	(1,501,600)	(630,466)
	445,004	1,075,470
	<u>\$ (1,056,596)</u>	<u>\$ 445,004</u>

Statements of Cash Flows

	2014	2013
OPERATING ACTIVITIES		
Ticket sales	\$ 209,332,256	\$ 198,044,067
Prizes paid to winners	(133,263,527)	(120,843,222)
Commissions and payment to retailers	(12,140,237)	(11,493,474)
Paid to vendors for goods and services	(9,918,822)	(9,670,679)
Paid to vendors for promotions	(3,692,563)	(3,449,121)
Paid to employees for service	(2,665,662)	(2,697,583)
NET CASH FROM OPERATING ACTIVITIES	<u>47,651,445</u>	<u>49,889,988</u>
NON CAPITAL FINANCING ACTIVITIES		
Transfers to State Permanent Building Fund	(18,075,000)	(17,000,000)
Transfers to State Public Schools Building Fund	(18,075,000)	(17,000,000)
Transfer to Bond Equalization Fund	(12,050,000)	(7,500,000)
Transfer to State General Fund - interest earnings	(94,199)	(79,452)
NET CASH USED FOR NON CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(48,294,199)</u>	<u>(41,579,452)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment and software	(29,799)	(40,857)
Principal paid on notes payable	(40,146)	(37,857)
Interest paid on notes payable	(5,188)	(7,481)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	<u>(75,133)</u>	<u>(86,195)</u>
INVESTING ACTIVITIES		
Interest income	95,649	80,724
Change in deposit with MUSL	(55,039)	43,782
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	<u>40,610</u>	<u>124,506</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(677,277)	8,348,847
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	48,416,156	40,067,309
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 47,738,879</u>	<u>\$ 48,416,156</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	\$ 47,502,138	\$ 47,525,743
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	102,317	122,141
Changes in assets and liabilities		
Receivables	(309,182)	(124,302)
Due from MUSL	-	3,235,898
Other assets	11,481	55,697
Accounts payable and accrued expenses	376,115	57,359
Due to MUSL	(13,335)	209,211
Prizes payable	(18,089)	(1,241,759)
NET CASH FROM OPERATING ACTIVITIES	<u>\$ 47,651,445</u>	<u>\$ 49,839,988</u>

Notes to the Financial Statements

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Authorizing Legislation

The Idaho Lottery (the Lottery), an agency of the State of Idaho (the State), was established in November 1988 with the enactment of Title 67, Chapter 74 of the Idaho Code (the Act). The purpose of the Act is to establish a lottery to generate revenue for the State. Revenues generated by the Lottery, after allowances for prizes and expenses, are distributed to the State Permanent Building, Idaho Public School Building, and Bond Equalization Funds.

Basis of Presentation

The Lottery is accounted for and reported as a proprietary-type enterprise fund of the State.

Impact of Recently Issued Accounting Principles

Recently Issued and Adopted Accounting Pronouncements:

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASBS No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement is effective for periods beginning after December 15, 2011 and was implemented in fiscal year 2013. The adoption of GASBS No. 62 did not have any impact on the entity's financial statements.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASBS No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The entity implemented this statement in fiscal year 2013.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

Multi-State Lottery Association

State statutes authorize the Lottery to participate in the Multi-State Lottery Association (MUSL). MUSL is a non-profit, government benefit association that administers low odds draw games with other participant state lotteries. The Lottery contributes to the related prize pools based on weekly draw ticket sales. MUSL holds semi-weekly drawings for prize amounts determined by ticket sales.

Revenue Recognition

Lottery tickets are sold to the public by contract retailers. Revenue from the sale of draw tickets is recognized at the time of the draw. Revenue from the sale of scratch tickets is recognized when retailers "settle" instant ticket packs. "Settling" occurs either after the retailer sells the scratch tickets to players, or upon delivery of the pack. The timing is determined by retailer policy but settling at the time the pack goes on sale is encouraged.

Accounts Receivable

The Lottery provides credit in the normal course of business to its customers and performs a thorough credit evaluation of each customer before approving a license to sell lottery products. The Lottery sweeps accounts receivables directly from its customers' accounts weekly, and will place customers' accounts on hold if there are insufficient funds after two weeks. Since the Lottery identifies bad accounts quickly, the credit losses, when realized, have been within the range of the Lottery's expectations and, historically, have not been significant. Consequently, no allowance for doubtful accounts has been established.

Commissions

Retailers receive a commission of 5% on ticket sales. Additional discretionary commissions of up to 1% may be awarded to retailers and as a result, commission expense will be closer to six percent of revenue. In addition, retailers selling a winning draw or scratch ticket with a prize amount of \$1000 or greater receive a selling bonus of 10% of the prize amount, up to a predetermined limit.

Prizes

In accordance with the Act, at least 45% of Lottery revenues must be returned to players in the form of prizes.

Scratch™ Games - Prize expense for scratch games is recognized as ticket packs are settled by retailers based on a predetermined prize structure for each game.

Multi-State Draw Games:

Idaho Powerball - The Powerball game is sold in forty-four U.S. lottery jurisdictions (forty-three states, the District of Columbia and the U.S. Virgin Islands). Prize expense represents 50% of revenues recognized for the game. Prizes are paid out over a twenty-nine year annuity (thirty payments) or as a single cash payment.

Mega Millions - The Mega Millions game is sold in forty-five localities (forty-three states, and the District of Columbia and the U.S. Virgin Islands). Sales began in Idaho on January 31, 2011 and prize expense represents 51% of revenues recognized for the game. Prizes are paid out over a twenty-five year annuity (twenty-six payments) or as a single cash payment.

Wild Card - Idaho, along with Montana, North Dakota and South Dakota, acting as a sub-organization of MUSL, participates in the WildCard game. Prize expense represents 57% of revenues recognized for the game. Jackpot prizes are paid out as single cash payments.

Hot Lotto - In association with the following jurisdictions: District of Columbia, Delaware, Idaho, Iowa, Kansas, Maine, Minnesota, Montana, New Hampshire, New Mexico, North Dakota, Oklahoma,

South Dakota, Vermont and West Virginia and as a sub organization of MUSL, Idaho participates in Hot Lotto. Prize expense represents 50% of revenues recognized for the game. Jackpot prizes are paid out over a twenty-four year annuity (twenty-five payments) or as a single cash payment.

Idaho Draw Games:

Raffle - Idaho's Million Dollar Raffle is a game developed by the Idaho Lottery and played only in Idaho. The first version of the Million Dollar Raffle launched on November 11, 2007 and sales end when all available tickets are sold out or when an established draw date commences. There is only one draw annually. Prize expense represents 52% of revenues recognized for the game. The one jackpot prize is paid out as a single cash payment.

Idaho Pick 3 - Sales of Idaho Pick 3 began in June 2000. Prize expense is budgeted at 50% of game revenues, but adjusted in the financial statements to reflect the actual prize expense for the reporting period. Prizes are paid out as single cash payments.

Weekly Grand - Weekly Grand is an Idaho only game launched on August 18, 2011. Weekly Grand has proven to be a popular replacement to Double Play Daily™. Players can win \$1,000 a week for a year, with the Idaho Lottery paying all of the required withheld taxes. The game pays out on Match 5 (\$1,000/week for a year), Match 4 (\$200), Match 3 (\$25), and Match 2 (free ticket) prize levels, but also offers a second chance draw each month for \$100 per week for a year.

Deposits with MUSL

Two percent of the payments to MUSL for multi-state draw games are accumulated in a deposit account with MUSL until the account balance has reached a level established by the MUSL Board.

The Lottery is an involuntary member of the MUSL Prize Reserve Funds Account (PRFA) investment pool. The PRFA is an unrated investment pool. All investments of the PRFA shall meet the general requirements of state public funds laws. Permitted investments shall include the direct obligations of the United States Government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States Government, and mutual funds of approved investments. The average portfolio maturity shall be no more than 2 years. The duration as of June 30, 2014 for the US Government Treasury securities and Agency securities was 1.34 years

Unclaimed Prizes

Prizes may be claimed for a period of 180 days after the drawing for draw games or 180 days from the declaration of the end of game for scratch games. Unclaimed prizes are offset against that fiscal year's prize expense.

Cash and Equivalents

Cash and equivalents include liquid investments with original maturities of three months or less. The Lottery's excess funds are held in the State of Idaho's investment pool. Funds held in the pool are generally available to the Lottery within 90 days.

Property and Equipment

Property, equipment and software are stated at cost. Depreciation/amortization is computed using the straight-line method over the estimated useful life ranging from three to five years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results of operations in the period of disposal.

Other Assets

Other assets are comprised of prepaid expenses and ticket inventory. Ticket inventory consists of Scratch tickets which are recorded at a fixed cost related to ticket designs and the cost of tickets for PullTab games. The fixed costs of the scratch tickets are amortized over the estimated total sales of the games. The PullTab tickets are valued at cost using the specific identification method, and the cost of tickets is charged to operations when sold. Unused tickets are charged to operations at the end of the game.

Notes Payable

Notes payable consists of a three year loan for the purchase of four vehicles for the Lottery Sales Representative fleet. The final note payment is due in April 2015. In addition, the Lottery entered into a capital lease agreement for a copier in 2012 which matures in December 2016.

Compensated Absences

Employees earn the right to be compensated during absences for vacation and illness. Within limits established by law, unused vacation benefits are paid to employees upon separation from State service and are the responsibility of the State entity employing the individual at the time of their separation from State service. Accumulated unused sick leave is paid upon the employee's retirement and is the responsibility of the State. Accumulated benefits for compensated absences are based on the period of service with the State and are accrued at current salary rates. Accordingly, the Lottery assumes the liability for benefits accumulated for employees who transfer to the Lottery from other State agencies. The Lottery will be relieved of liability upon the transfer of an employee to another State agency.

Dividends

Dividends are recorded on the date they are declared by the Idaho Lottery Commission.

Budget

The appropriation for administrative costs is limited to 15% of revenue. Modification of the administrative appropriation must be approved by the State Division of Financial Management. In addition, the Lottery prepares and monitors an operating budget. The budget does not meet the definition of a legally adopted budget for financial reporting purposes. Accordingly, no budget is presented within the financial statements.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Management considers all available information related to estimates up to the date of the report. Significant estimates used in preparing these financial statements include those assumed in determining the prizes payable and interest income from the funds held at the state.

Notes to the Financial Statements

It is at least reasonably possible that the significant estimates used will change within the next year.

NOTE 2 – CASH AND EQUIVALENTS

Cash and cash equivalents consisted of the following at June 30,

	2014	2013
Cash in banks	\$ 190,376	\$ 1,922,034
Cash on deposit with State Controller	120,000	120,000
Investments in the State of Idaho's General Fund Investment Pool, at cost, which approximates market	<u>47,428,503</u>	<u>46,374,122</u>
Total cash and equivalents	<u>\$ 47,738,879</u>	<u>\$ 48,416,156</u>

The Lottery is required to keep excess cash on deposit in the State of Idaho's General Fund. The State Treasurer's Office acts as the State's bank, receiving and disbursing all monies. In accordance with Idaho Code, Section 67-1210 and 67-1210A, all idle cash deposited with the State Treasurer is invested in a variety of securities. The Lottery is an involuntary member of this investment pool, and the Lottery receives no interest or investment income on its cash and equivalents. Further disclosure of the State's investment pool is located in the State of Idaho's Comprehensive Annual Financial Report.

The cash in banks is invested in highly rated financial institutions and may, at times, exceed FDIC insurance limits.

NOTE 3 – PROPERTY AND EQUIPMENT

Fixed asset activity for the year ended June 30, 2014 was as follows:

	2013	Additions	Retirements	2014
Computer equipment	\$ 604,343	\$ 24,795	\$ -	\$ 629,138
Office furniture	1,960,049	5,004	(949,736)	1,015,317
Vehicles	418,210	-	-	418,210
Leasehold improvements	379,233	-	-	379,233
	<u>3,361,835</u>	<u>29,799</u>	<u>(949,736)</u>	<u>2,441,898</u>
Accumulated depreciation and amortization	<u>(3,147,592)</u>	<u>(102,317)</u>	<u>949,736</u>	<u>(2,300,173)</u>
Property and equipment, net	<u>\$ 214,243</u>	<u>\$ (72,518)</u>	<u>\$ -</u>	<u>\$ 141,725</u>

Fixed asset activity for the year ended June 30, 2011 was as follows:

	2012	Additions	Retirements	2013
Computer equipment	\$ 580,860	\$ 23,483	\$ -	\$ 604,343
Office furniture	1,952,224	17,374	(9,549)	1,960,049
Vehicles	500,617	-	(82,407)	418,210
Leasehold improvements	387,840	-	(8,607)	379,233
	<u>3,421,541</u>	<u>40,857</u>	<u>(100,563)</u>	<u>3,361,835</u>
Accumulated depreciation and amortization	<u>(3,126,014)</u>	<u>(122,141)</u>	<u>100,563</u>	<u>(3,147,592)</u>
Capital assets, net	<u>\$ 295,527</u>	<u>\$ (81,284)</u>	<u>\$ -</u>	<u>\$ 214,243</u>

Depreciation and amortization expense for the year ended June 30, 2014 and 2013 was \$102,317 and \$122,141, respectively.

NOTE 4 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30,

	2014	2013
Trade accounts payable	\$ 816,952	\$ 458,172
Personnel costs payable	165,597	156,830
Accrued compensated absences	125,401	120,885
Deferred draw sales	<u>699,449</u>	<u>695,397</u>
Accounts payable and accrued expenses	<u>\$ 1,807,399</u>	<u>\$ 1,431,284</u>

NOTE 5 – EMPLOYEE RETIREMENT PLAN

Substantially all Lottery employees are eligible to participate in the Public Employee Retirement System of Idaho (PERSI). The PERSI Base Plan, a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The Plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service

retirement allowance is 2.0% of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available stand alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website www.persi.idaho.gov.

The actuarially determined contribution requirements of the Lottery and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended June 30, 2014, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members. The employer rate as a percentage of covered payroll was 10.39% for general members. The Lottery employer contributions required and paid were \$209,682, \$183,529, and \$182,796, for the years ended June 30, 2014, 2013, and 2012, respectively.

NOTE 6 – CONTRACT WITH INTRALOT

Like most U.S. lotteries, the Idaho Lottery contracts with a gaming contractor to provide the Lottery with critical hardware and software, network communications, and technical support personnel necessary to efficiently operate the lottery gaming systems. The Lottery entered into a contract with INTRALOT to provide these services. The contract period is from February 19, 2007, to February 18, 2014; however, the Lottery has the option to extend the contract. As compensation, the Lottery is to pay a fixed price of 1.98% of total net sales. The Lottery also paid INTRALOT a one-time fee of \$173,000 plus a monthly fee of \$3,466 for a Sales Force Automation System, a wireless tablet reporting system used by the Lottery's Regional Sales Representative. The contract also provides for the leasing of ticket checking devices at retail locations and for leasing of Scratch™ and Draw game automated vending machines (Winstation Player Vending [NSVM] and MultiPlay Station [MPI] vending machines) and electronic jackpot signs.

NOTE 7 – LEASES

The Lottery has entered into operating leases for the rental of headquarters offices (expiring December 31, 2017) and a new warehouse lease (expiring in June 30, 2018). Both leases are renewable at the option of the Lottery. Future lease expense for the operating leases follows:

	2015	2016	2017	2018
	294,809	302,633	309,413	173,345
	<u>\$ 1,080,200</u>			

Rent expense for operating leases was \$289,485 and \$367,460, for the years ended June 30, 2014 and 2013, respectively.

NOTE 8 – CONTINGENCIES AND COMMITMENTS

Prize Annuities - The Lottery purchases annuity contracts in the name of individual jackpot prize winners. Although the annuity contracts are in the name of the individual winners, the Lottery retains title to the annuity contracts. The Lottery remains liable for the payment of the guaranteed minimum prize payments for which annuity contracts have been purchased are due in varying amounts through February 2034. The specified prize payments are \$17,698,751 and \$25,343,289 for the years ended June 30, 2014 and 2013, respectively.

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS

Summary of Plans

The Lottery participates in other postemployment benefit plans relating to health and disability administered by the State of Idaho as agent multiple-employer defined benefit plans. Idaho Code, Sections 67-5760 to 67-5767 and 72-1335, establishes the benefits and contribution obligations. Each of these benefits is provided by the Lottery to retired or disabled employees. The Lottery has not set aside any assets to pay future benefits; the Lottery funds these benefits on a pay-as-you-go basis.

Details of the plans can be found in the Comprehensive Annual Report of the State of Idaho, which may be obtained as follows:

Office of the Idaho State Controller
700 W State Street, 4th Floor
Boise, ID 83702
P.O. Box 83720
Boise, ID 83720-0011
www.sco.idaho.gov



Idaho Lottery Awards and Achievements

The Idaho Lottery was recognized for their outstanding work and achievements during Fiscal Year 2014 with many awards, including those for overall performance and those in multi-media advertising campaigns:

Public Gaming Research Institute

“Sharon Sharp Award for Good Causes”

2014 Idaho Advertising Federation – Rockie Awards

Gold Rockie – HUGE Food Powerball Campaign – Self Promotion

Silver Rockie – MyPlayslip app – Digital Advertising

Silver Rockie – For the Love of Bacon/Bacon Bits – Digital Advertising

Silver Rockie – TAP Scratch Sales Kit – Sales Promotion

Silver Rockie – Suhweet BBQ Bucks Campaign - Public Relations

Silver Rockie – Holiday Scratch Television

Silver Rockie – The Great Idaho Cashword Television

Silver Rockie – Benefits Television

North American State and Provincial Lottery Association – 2014 Awards

Batchy Winner: Benefits - 600 Million; Category - TV Advertising – Corporate / Beneficiary

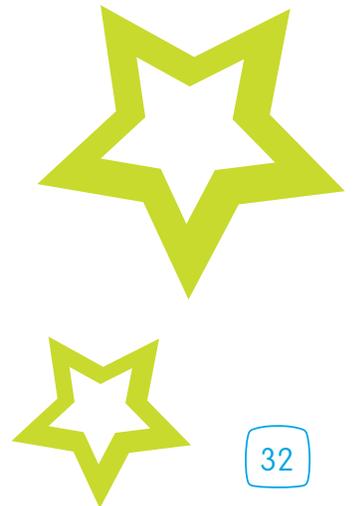
Batchy Winner: Huckleberry - 3 Words; Category – Radio Advertising – Instant Games

Batchy Winner: Powerball HUGE Food; Category – Best New Media

Batchy Finalist: Frogger - Coach; Special Category – TV Campaign Under \$25,000

Hickey Finalist: 25th Anniversary Mountain Climb Game; Category – Potpourri Promotion

Hickey Finalist: Frogger; Category – Best New Instant Game



Benefiting Idaho Public Schools and the Permanent Building Fund.
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